SUMMARY

Audit of the Mayor's 2006-2007 Proposed Budget

This audit report provides an overview of the Mayor's 2006-2007 Proposed Budget, and makes comparisons to the 2005-2006 Budget. The report also includes our analyses and comments related to revenues, appropriations, and other budgetary aspects of City operations included in the Mayor's 2006-2007 Proposed Budget.

In our prior audit, we concluded that the Mayor's 2005-2006 Proposed Budget was incomplete and contained assumptions that were not properly supported and extremely "optimistic." Although we commend the Administration for presenting a more "realistic" 2006-2007 Proposed Budget, we again question the premises on which some of the budget assumptions are built.

Overview

The Mayor's 2006-2007 Proposed Budget is $3,661.8 million; approximately $840.8 million, or 29.8% more than the 2005-2006 Budget of $2,821.0 million. Estimated revenues included in the proposed budget consist of Local, State, and Federal sources. The following schedule identifies budgeted revenues and percentages per governmental source, as compared to the Mayor's 2005-2006 Proposed Budget:

	2006-2007 Estimated Revenues (In Millions)	Percent of Total	2005-2006 Estimated Revenues (In Millions)	Percent of Total
Local sources	$2,985.0	81.5%	$2,144.5	76.0%
State sources	451.6	12.3	434.2	15.4
Federal sources	225.2	06.2	242.3	08.6
Total	$3,661.8	100.0%	$2,821.0	100.0%

The increase in budgeted revenue is primarily due to the planned sale of water and sewerage revenue bonds, and projected revenue generated from solid waste fees.

Water and Sewerage Revenue Bonds

The Mayor's 2006-2007 Proposed Budget includes the sale of water revenue bonds totaling $400.0 million and sewerage revenue bonds totaling $375.0 million. These bonds are sold on a biannual basis and are used primarily to absorb the cost of sewer and drainage pipe replacements, maintenance of pumping stations, and renovation and rehabilitation of the City's wastewater treatment facility.

If the $775 million in revenue bonds is factored out of the analysis, the Mayor's 2006-2007 Proposed Budget provides for an increase of $65.8 million or 2.3%, as compared to the 2005-2006 Budget.

Solid Waste Fees

The Mayor's 2006-2007 Proposed Budget includes revenues of $67.2 million for the collection of solid waste. The projected revenue is the result of the Mayor's plan to charge a quarterly fee of $75 ($300 annually) to City households for trash collection services. The $67.2 million budgeted amount is based on residential fee collections from 224,000 households. It is estimated that 56,000 or 20% of the City's households will receive either a reduced rate or be determined uncollectible. Reduced rates and uncollectible households were excluded from the collection total. The solid waste initiative allows senior citizens to receive a 30% fee discount. In order to receive the reduced rate, seniors must meet all of the following criteria:

- Be age 65 or older;
- Be the owner of the property; and
- Have a total household income below $39,000.

The solid waste fee replaces the three mills garbage tax currently levied on residential and commercial property. Annual revenue collected from this tax is approximately $26.2 million. By imposing the solid waste fee and eliminating the garbage mills, the Mayor's 2006-2007 Proposed Budget projects a net revenue increase of $40.0 million.

Exhibits 1 and 2 report the major components of the increases in revenues and appropriations.

Audit Results

In general, our analysis focused on budget items with General Fund impact. The General Fund appropriations included in the Mayor's 2006-2007 Proposed Budget totals $1.435 billion, or 39.2%, of the City's total fiscal year 2006-2007 appropriations, and $35.0 million, or 2.5%, more than the 2005-2006 Budget amount of $1.400 billion.

Revenues:

The five largest components of recurring General Fund revenues, in descending order by budgeted amount, are State Revenue Sharing, Municipal Income Tax, Property Tax, Casino Related Revenue, and Utility Users Tax. A sixth major source of revenue are Bonds, Certificates and Notes Payable.

State Revenue Sharing is budgeted at $284.1 million in the Mayor's 2006-2007 Proposed Budget, $1.0 million less than the fiscal year 2005-2006 budgeted amount of $285.1 million. In 1998, the State Revenue Sharing Act (Act) was amended to change the method for determining State Revenue Sharing payment amounts. According to the Act, the City of Detroit was to receive a total of $333.9 million in State Revenue Sharing payments each year, from State fiscal year 1998-1999 to State fiscal year 2005-2006, and an annualized amount for the nine-month period from October 1, 2006 to June 30, 2007. Executive orders issued by the Governor in December 2002 and again in 2003, reduced State Revenue Sharing payments to all cities including Detroit. The Governor's fiscal year 2006-2007 Executive Budget recommends total State Revenue Sharing payments to Detroit in the amount of $285.1 million, which is the City's fiscal year 2006-2007 budgeted amount. On a per capita basis, Detroit received $352 per resident prior to the reductions in revenue share. In State fiscal year 2006-2007, the Governor's Executive Budget calls for Detroit to receive $300 per resident. In our opinion, the amount estimated in the Mayor's 2006-2007 Proposed Budget for State Revenue Sharing of $284.1 million is reasonable, because it corresponds to the Governor's fiscal year 2006-2007 Executive Budget.

Municipal Income Tax revenue is estimated at $271.4 million in the Mayor's 2006-2007 Proposed Budget, or $3.7 million less than the fiscal year 2005-2006 budget amount of $275.1 million. The Budget Department's projection incorporates a 1.5% negative growth rate derived from trends in prior years' income tax collections. The Income Tax Division expects the reduction in the personal exemption amount from $750 to $600, effective January 1, 2005, will increase income tax revenue by $2.5 million annually. For fiscal year 2006-2007, the income of residents and nonresidents will be taxed at the rate of 2.5%, and 1.25% respectively while the corporate tax rate will be 1.0%. The tax rates are the same as the prior three years due to the suspension of Act 500, P.A., 1998. For fiscal year 2005-2006, the Budget Department estimates actual Municipal Income Tax revenue of $273.5 million, which is $0.9 million more than the budgeted amount excluding prior year collections. Based on our analysis of the estimated collections for fiscal year 2005-2006, the stable income tax rate, and the negative growth rate, the estimated Municipal Income Tax revenue amount of $271.4 million for fiscal year 2006-2007 appears reasonable.

Property Tax Revenue included in the Mayor's 2006-2007 Proposed Budget of $248.4 million is $15.6 million less than the fiscal year 2005-2006 budget amount of $264.0 million. The decrease in Property Tax Revenue is primarily due to the elimination of the garbage mills levied on residential and commercial property. In fiscal year 2006-2007 a garbage collection fee is budgeted to replace the garbage mills levy. The City will use $76.2 million of the budgeted $248.4 million for debt service. Based on our analysis, the 2006-2007 estimated Property Tax Revenue is reasonable.

The Mayor's 2006-2007 Proposed Budget includes $193.6 million for Casino Related Revenue, which is $25.3 million more than the fiscal year 2005-2006 budget. The $193.6 budgeted amount includes revenue from Wagering Tax, Percentage Payments required by the development agreements, and Municipal Service Fees. The fiscal year 2006-2007 budgeted Casino Wagering Taxes of $157.5 million, which is based on 11.9% of adjusted gross receipts is reasonable. The Percentage Payment is based on an additional 1.0% of adjusted gross receipts and additional revenues triggered when a casino's adjusted gross receipts reach $400.0 million. The fiscal year 2006-2007 proposed budget estimates $20.8 million will be realized in Percentage Payment revenue. Based on our analysis of actual and projected casino revenue data, this amount appears reasonable. The proposed fiscal year 2006-2007 budget of $15.3 million for Municipal Service Fee revenue is reasonable.

Utility Users Tax revenue is budgeted at $56.0 million in the Mayor's 2006-2007 Proposed Budget, which is equal to the amount budgeted in fiscal year 2005-2006. Actual Utility Tax revenue has remained relatively flat increasing a net $2.8 million over the eight-year period from fiscal years 1997-1998 through 2004-2005. Previously, the Utility Users Tax Act, as amended, provided that the first $45.0 million generated from the tax be used to retain or hire police officers. The Act also required that the amount of each fiscal year's Utility Users Tax revenue collected in excess of $45.0 million be dedicated and used exclusively to hire or retain additional police officers, having the rank of sergeant or below, over the level employed on November 1, 1984 of 3,537. If amounts collected were not used to hire and retain officer above the 3,537 level, the City was required to lower the tax rate in decrements of 0.25%. Effective November 9, 2005, the Utility Users Tax Act was amended to eliminate the specific police officer staffing requirement provisions. All revenue generated under this act is required to be placed directly into the Police Department budget. Based on our analysis, the budgeted amount of $56.0 million is reasonable.

The Mayor's 2006-2007 Proposed Budget includes $835.0 million in revenues from Bonds, Certificates and Notes Payable, an increase of $785.0 million from the $50.0 million in the fiscal year 2005-2006 budget. The 2006-2007 budgeted amount includes $775.0 million for Water and Sewerage Revenue Bonds, $40.0 million for Capital Projects, and $20.0 million for new vehicle purchases. In fiscal years 2004-2005 and 2005-2006 additional notes and obligations were issued to generate revenues. The additions included $1.44 billion of Pension Obligation Certificates (POCs) issued in fiscal year 2004-2005, and $55.0 million of Revenue Anticipation Notes issued in fiscal year 2004-2005, which were paid in full in April, 2006. Currently $127.0 million of unbudgeted Revenue Anticipation Notes and Tax Anticipation Notes are pending approval by City Council as is the refinancing of $800.0 million of the POCs. The City's debt policy specifies that long-term debt should only be issued for capital purposes, and not to finance current operations or working capital.

The City annually issues bonds for capital improvements in the $40.0 to $50.0 million range; therefore the $40.0 million budgeted for capital projects is reasonable.

In recent years the financing strategy of the City has been very diverse with substantial modifications made during the year. If caution is not used, the effect of these modifications can significantly impact the general fund and debt service.

Appropriations:

The Mayor's 2006-2007 Proposed Budget for <u>Salaries and Wages</u> is $686.8 million, $36.4 million more than the 2005-2006 budget amount of $650.4 million. The fiscal year 2006-2007 proposed budget includes $11.0 million in savings due to 10% salary cuts for the Mayor and civilian union employees. The Mayor plans to use his legal authority to impose the City's last best offer if an agreement with the unions is not reached by the start of fiscal year 2006-2007. In our opinion, the budgeted $11.0 million in cost saving is questionable. The cost savings is based on the entire 2006-2007 fiscal year; however, union endorsement of the pay cuts has not been forthcoming and concessions may not be reached by the beginning of fiscal year 2006-2007. The proposed budget includes 14,964 budgeted positions, 787 fewer than the fiscal year 2005-2006 budget amount of 15,751. The decrease is primarily due to 77 layoffs and a net elimination of 710 positions. Based on our review, the amount budgeted for Salaries and Wages appears to be reasonable; however, the likelihood that union approval of a 10.0% pay cut will be approved by July 1, 2006 is questionable.

<u>Employee Fringe Benefits (excluding Pensions)</u> for the entire City increased by $36.8 million to $312.0 million in the Mayor's 2006-2007 Proposed Budget, as compared to $275.2 million in the 2005-2006 Budget. This $36.8 million increase is due mainly to a $33.7 million or 18.3% increase in hospitalization appropriations. Negotiable fringe benefits are budgeted at $253.5 million, a 20.1% increase from the $211.1 million budgeted in fiscal year 2005-2006. The proposed budget recognizes savings of $58.0 million as a result of a redesigned health care plan being negotiated between the administration and the union leadership. However, it is unlikely that the City will be able to implement the revised health plans for all City employees by July 1, 2006. Due to the labor negotiation process, the Mayor will not be able to impose the City's last best offer on those unions, which have not been through the fact-finding phase of negotiations. If savings are realized for the full year, the 20.1% increase in negotiable fringe benefits is reasonable. The 2005-2006 Budget projected $47.0 million in health care cost savings that did not materialize. As a result, the Budget Department estimates a $42.0 million deficit in fringe benefits for the current fiscal year.

The Mayor's 2006-2007 Proposed Budget includes $186.3 million for <u>Pension</u> contributions compared to $171.1 million in the 2005-2006 budget. In fiscal year 2006-2007, a new third component is used to compute budgeted pension cost – an amount to cover the estimated debt service (principal and interest) on the Pension Obligation Certificates (POCs). Using the actuarial rates and the third component, we found that the contribution to the General Retirement System (GRS), the Police and Fire Retirement System (PFRS) and the POC debt service were understated by $1.1 million, $1.3 million, and $21.8 million respectively. The administration plans to refinance a portion of the POCs, which will result in a $20.0 million savings thus absorbing most of the POC debt service $21.8 million shortfall. However, refinancing of the POCs must be approved by City Council. According to the Budget Department, in determining pension costs, budgeted salary amounts should be used; however in the Mayor's 2006-2007 Proposed Budget, salaries for union employees have been reduced for days off without pay (DOWOP). We estimate an understatement of $1.0 million due to the Budget Department incorrectly using a lower salary to calculate pension costs. Our analysis indicates that the $186.3 million budgeted for pension costs is not sufficient to fund the City's projected required pension contribution. If the POCs are refinanced prior to June 15, 2006 anticipated savings of $20.0 million are to be realized. However, we project a $1.8 million shortage will remain in POCs debt service and a shortage of $1.0 million due to calculating the pension contribution on the reduced union wages.

Reorganization of City Government:
Included in the Mayor's 2006-2007 Proposed Budget are several organizational changes to the City's governmental structure. One department was created, four departments were eliminated, and two divisions were transferred.

<u>Departments Created</u>
Included in the Mayor's 2006-2007 Proposed Budget is the establishment of one department, the General Services Department.

The General Services Department will be the maintenance department for all city buildings and properties and provide citywide consolidation of the following activities:

- Fleet management,
- Security,
- Building and grounds maintenance including vacant lots,
- Inventory management, and
- Skilled trades, excluding the Apprentice Program.

The Mayor's 2006-2007 Proposed Budget projects a $4.5 million savings through the consolidation services in the General Services Department. The fiscal year 2006-2007 budgeted appropriation for the department is $59.8 million. 629 positions will be transferred to this new department from the following departments: 256 positions from the Recreation Department; 222 positions from the Department of Public Works; 45 positions from the Health Department; 43 positions from the Fire Department (civilian); 30 positions from the Police Department (civilian); 20 positions from the Civic Center; 10 positions from Planning and Development; 2 positions from the Elections Department; and 1 position from the Finance Department.

<u>Departments Eliminated</u>
In fiscal year 2005-2006, the City signed agreements with the Detroit Zoological Society to administer operations of the Detroit Zoo and the Detroit Historical Society to manage operations of the Detroit Historical Museum thus eliminating both cultural departments from the City's organizational structure.

The Mayor's 2006-2007 Proposed Budget eliminates both the Senior Citizens Department and the Consumer Affairs Department. Activities of the Senior Citizens Department and the consumer advocacy function of the Consumer Affairs Department will be transferred to the

Recreation Department. Licenses and Permits will be transferred to the Buildings and Safety Engineering Department, and Weights and Measures regulation will be transferred to the Police Department Vehicle Management Division.

Divisions Transferred
The Mayor's 2006-2007 Proposed Budget transfers the 311 Call Center from the Department of Public Works to Non-Departmental and the Citizen Patrol from the City Clerk's Office to Non-Departmental. The two activities will be supervised by the Mayor's Office. Other major transfers include 22 inspectors and 3 supervisory positions from the Health Department to the Department of Environmental Affairs to centralize enforcement of illegal dumping and other blight violations.

Other:
Other items of financial importance and interest related to the Mayor's 2006-2007 Proposed Budget include the following:

General Fund contribution to the Risk Management Fund of $36.6 million, budgeted for in 2005-2006, will be reduced to $6.6 million, due to a change in the City's funding methodology. Based on our analysis, the Risk Management Fund balance is projected to fall to $3.0 million, and could fall to a deficit of $3.6 million if the planned $6.6 million General Fund payment is not made by the end of the current fiscal year. It is expected that the Finance Director will recommend that City Council approve reducing the minimum legal balance of the Fund. In order to obtain City Council's approval, a plan to replenish the fund balance within five years must be presented. The fiscal year 2006-2007 budgeted Fund premium does not include any funding to cover the projected fund deficit for fiscal year 2005-2006. We believe additional funding may be required.

The Risk Management Fund's bonded debt is more than five times higher than its fund balance as of June 30, 2005. Estimated annual average cost of debt service on the 2003 and 2004 self-insurance bond issues combined is $21.1 million per year, over a period of ten years. The current balance of the self-insurance bond issues is $161.2 million. Each of these bond issues mature over a ten-year period and should be paid off in fiscal years 2012-2013 and 2013-2014, respectively. The Fund is highly leveraged, which will affect the Administration's ability to restore the Fund to the required minimum balance of $20.0 million within five years.

The Mayor's 2006-2007 Proposed Budget for the Department of Transportation (DDOT) of $160.8 million is $9.4 million less than the fiscal year 2005-2006 budget amount of $170.2 million. Included in the proposed budget is the General Fund subsidy of $70.2 million, which is reasonable. DDOT plans to fund nearly $8.0 million in operating costs with Federal Transit Administration (FTA) grants for the first time. DDOT also budgeted $51.4 million in State Operating Assistance, which based on our analysis, is reasonable.

Budgeted farebox revenue is $26.9 million, which includes approximately $3.0 million in farebox revenue from disabled riders. The proposed fare, subject to City Council approval, is seventy-five cents per disabled rider. Based on the history and estimated fare box collection for fiscal year 2005-2006, and the uncertainty of City Council's approval of the disabled rider fare, the budgeted amount for farebox revenue is overstated.

The proposed budget includes $9.4 million in overtime. As of March 31, 2006, actual DDOT overtime is $10.7 million, although budgeted for $9.5 million. Based on DDOT overtime trends, we consider the amount budgeted for DDOT overtime to be optimistic.

Surplus/Deficit

The Budget Department currently projects a General Fund Deficit of $62.8 million for fiscal year 2005-2006. The estimated deficit represents a $132.3 million net deficit from agencies and other items offset by deficit reduction transactions totaling $69.5 million. As of April 24, 2006, deficit reduction items totaling $73.5 million were not realized. If these transactions are not realized, the fiscal year 2005-2006 budget deficit could reach $136.3 million. We are not confident that the Administration will realize the entire $73.5 million by June 30, 2006. In our opinion, the Mayor's Proposed 2005-2006 General Fund deficit is understated.

Conclusion
In our opinion, overall, the Mayor's 2006-2007 Proposed Budget is reasonable. However we noted the following issues:

- Projected revenue realized from the solid waste fee is approximately $41.0 million; however the measure requires City Council approval.

- For fiscal years 2004-2005 and 2005-2006, the City issued unbudgeted bonds to pay short-term debt. This is contrary to the City's debt policy. Moving forward, if caution is not used, these actions will negatively impact the General Fund.

- It is unlikely that the City can realize the entire $11.0 million in cost savings due to the 10% salary cuts, because the Mayor will not be able to impose the City's last best offer on those unions which have not been through the fact finding process.

- The City assumes that it will recognize $58.0 million as a result of redesigned health care plans currently being negotiated. However it is questionable whether the City will be able to implement the revised health care plans by July 1, 2006 for the entire workforce.

- The Pension Obligation Certificate (POC) debt service was understated by approximately $21.8 million. The Administration plans to refinance a portion of the POCs, which is expected to result in a $20.0 million savings. The refinancing must be approved by City Council.

- The Administration will create a General Services Department, which will be the maintenance department for all city buildings and properties. Projected savings through consolidating services in the General Services Department total $4.5 million.

- For the 2005-2006 fiscal year, funding for the Risk Management Fund was reduced by $30.0 million due to a change in the City's funding methodology.

- It is expected that the Finance Director will recommend that the City Council approve reducing the minimum legal balance of the Risk Management Fund. For City Council approval, a plan to replenish the fund balance within five years must be presented.

- The Risk Management Fund's bonded debt is more that five times higher than the fund balance as of June 30, 2005.

- Farebox revenue for the Detroit Department of Transportation is overstated, primarily, because of the uncertainty of City Council's approval of the disabled rider fare of $0.75, which is budgeted to generate $3.0 million in fiscal year 2006-2007.

- The General Fund deficit for fiscal year 2005-2006 could reach $136.3 million, if deficit reduction measures are not implemented.

EXHIBIT 1

MAJOR COMPONENTS OF THE INCREASE IN BUDGETED REVENUES
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET

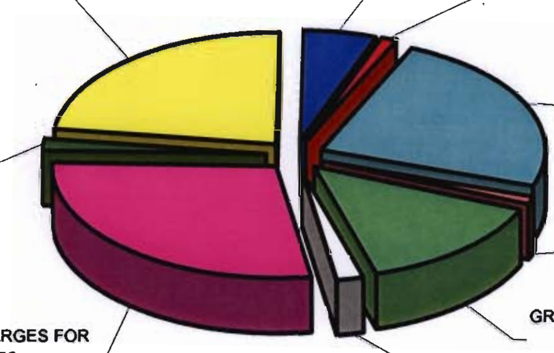
	Increase/(Decrease) In Millions
Sale of Water and Sewerage Revenue Bonds	$ 775
Solid Waste Fee	67
Casino Percentage Payment	21
Internal Service Fund (Vehicles)	20
Supplemental Fee (GDRRA)	20
Gas and Weight Taxes	16
Enterprise Revenue from Operations	11
Utility Users Taxes	6
Wagering Tax (Casinos)	5
Other State Sources – Net	1
Other Local Revenue - Net	(29)
General Obligation Bonds	(10)
Sale of Assets	(10)
Property Tax	(9)
Head Start Grant	(9)
Subsidy from General Fund	(7)
Delinquent Taxes	(7)
Sales and Charges for Services	(7)
Inspection Charges and License Fees	(5)
Workforce Investment Act Grant	(4)
Other Federal Sources - Net	(4)
Net Increase in Revenues	$ 841

MAJOR COMPONENTS OF THE INCREASE IN BUDGETED APPROPRIATIONS
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET

	Increase/(Decrease) In Millions
Other Expenses (increases primarily due to $775 million Water and Sewerage Revenue Bonds; offset by net decreases for other initiatives)	$ 709
Employee Benefits (increases primarily related to pension costs, hospitalization, and other employee benefits; offset by proposed implementation of a new benefits plan)	73
Operating Services (primarily related to increases in GDRRA's supplemental and tipping fees, and other initiatives)	42
Salaries and Wages (increases primarily due to a salary adjustments; offset by the elimination of 787 positions including 77 layoffs)	36
Fixed Charges (primarily to cover debt service for the following: • Water Revenue Bonds, • Sewerage Revenue Bonds, • 800 MHz Bonds, • Human Resources Payroll Project, and • Information Technology Services-Unisys Project)	33
Capital Equipment and Outlays (related to an increase in vehicle acquisitions, the Airport Mini-take Land Acquisition; offset by reduction in major repair funding for the Police Department and bus acquisitions at DDOT)	5
Operating Supplies (primarily related to decreases in natural gas costs, and repairs and maintenance of equipment)	(14)
Professional and Contractual Services (primarily due to reductions in contractual services in Information Technology Services, Department of Human Services, and the Water and Sewerage Departments)	(43)
Net Increase in Appropriations	$ 841

EXHIBIT 3

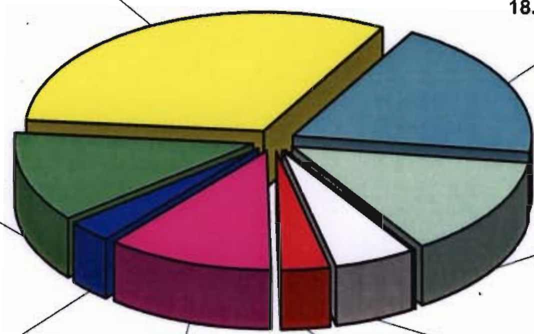
MAJOR REVENUES BY SOURCE
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET



REVENUE SOURCE	MAYOR'S 2006-2007 PROPOSED BUDGET	2005-2006 BUDGET	INCREASE (DECREASE)		PERCENT CHANGE
LICENSES, PERMITS, AND INSPECTION CHARGES	$ 36,356,708	$ 41,140,885	$ (4,784,177)		(11.6) %
TAXES, ASSESSMENTS AND INTEREST	870,309,195	832,519,710	37,789,485		4.5
FINES, FORFEITS AND PENALTIES	38,330,950	44,120,654	(5,789,704)		(13.1)
GRANTS, SHARED TAXES, AND REVENUES	523,622,123	541,053,305	(17,431,182)		(3.2)
REVENUES FROM USE OF ASSETS	66,085,052	72,755,530	(6,670,478)		(9.2)
SALES AND CHARGES FOR SERVICES	1,028,764,442	943,446,448	85,317,994		9.0
SALES OF ASSETS AND COMPENSATION FOR LOSSES	57,447,375	68,710,093	(11,262,718)		(16.4)
MISCELLANEOUS	843,780,958	92,126,870	751,654,088	(A)	815.9
CONTRIBUTIONS AND TRANSFERS	197,144,627	185,134,786	12,009,841		6.5
TOTAL	$3,661,841,430	$2,821,008,281	$ 840,833,149		29.8 %

(A) This substantial increase in Miscellaneous Revenue is due largely, in part, to a $400 million increase in Water Department revenue and a $375 million increase in Sewerage Department Revenue from revenue bond sales of $400 million and $375 million respectively.

APPROPRIATIONS BY MAJOR OBJECT
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET



MAJOR OBJECT	MAYOR'S 2006-2007 PROPOSED BUDGET	2005-2006 BUDGET	INCREASE (DECREASE)	PERCENT CHANGE
SALARIES AND WAGES	$ 686,845,302	$ 650,463,269	$ 36,382,033	5.6 %
EMPLOYEE BENEFITS	498,355,459	425,905,554	72,449,905	17.0
PROFESSIONAL AND CONTRACTUAL SERVICES	209,266,783	252,113,254	(42,846,471)	(17.0)
OPERATING SUPPLIES	118,183,987	131,990,299	(13,806,312)	(10.5)
OPERATING SERVICES	424,408,449	382,329,329	42,079,120	11.0
CAPITAL EQUIPMENT	109,817,616	105,408,700	4,408,916	4.2
FIXED CHARGES	445,591,610	412,638,912	32,952,698	8.0
OTHER EXPENSES	1,169,392,224	460,158,964	709,233,260 (A)	154.1
TOTAL	$3,661,861,430	$2,821,008,281	$ 840,853,149	29.8 %

(A) This substantial increase in Other Expenses is primarily related to the sale of $400 million in Water Department revenue bonds, and $375 million in Sewerage Department revenue bonds, offset by decreases in other inititiatives.